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Ownership structure, corporate governance disclosure, and the moderating effect of CEO power: evidence from East Africa

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ABSTRACT

This study examines the effect of ownership structure (classified as concentrated, institutional, and managerial ownership) on corporate governance (CG) disclosure. Using a sample of 96 East African firms, we document that, whereas concentrated ownership has a negative effect, institutional ownership has a positive and significant association with CG disclosure. However, we find the effect of managerial ownership on CG disclosure to be negative and insignificant. We also find CEO power to moderate the link between ownership structure and CG disclosure. Further analysis indicates that, whereas the effects of institutional and concentrated ownerships on CG disclosure remain unchanged irrespective of a firm's debt levels, the effect of managerial ownership on CG disclosure is driven by external pressures associated with debt financing. Our findings provide evidence on how different ownership types have different preferences, thereby influencing corporate disclosure practices differently. Our results are robust to the two-stage system generalised method of moments (SGMM) and other alternative sensitivity tests.

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1. Introduction

Prior studies document that the extent to which the ultimate decision-making authority is utilised in a firm is influenced by the ownership structure and corporate governance (CG) system in place (Boubaker et al., 2017). Although both managerial hegemony and agency theorists emphasise the vital role of ownership structure in insuring against managerial opportunistic behaviour through monitoring and control, it is argued that ownership structure is heterogeneous in nature and tends to influence corporate policies in different ways (Boone & White, 2015; Nguyen et al., 2024). For example, on the one hand, it is argued that institutional and managerial shareholders

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may find it mutually beneficial to cooperate on matters which jointly affect them, such as business risk, and hence may fail to perform effective monitoring over executive management (Pound, 1988). Conversely, under the efficient monitoring hypothesis, institutional shareholders have greater incentives to monitor management due to their vast expertise and ability to achieve cost-effectiveness. Moreover, given the shareholders' diverse horizons and objectives, the relationship between ownership structure and CG disclosure tends to be unclear and requires more investigation (Ali et al., 2022; Zaini et al., 2020), because such disclosure communicates valuable and sensitive information which may bring additional business risk and attract more public scrutiny,

While the recent work of Ali et al. (2022) underscores the importance for policy-makers and practitioners to understand how ownership structure affects CG disclosure, the few studies that exist in the developing country context (e.g. Al-Bassam et al., 2018; Boubaker et al., 2017; Elamer et al., 2019) have yielded conflicting results. For instance, Boubaker et al. (2017) report a positive influence of managerial, concentrated, and institutional ownership on CG disclosure. Ntim et al. (2013) and Al-Bassam et al. (2018), however, report a negative effect of ownership concentration and managerial ownership on CG disclosure practices. Strikingly, the few studies in the developing country context have ignored the role of top management team (TMT), particularly the attributes of Chief Executive Officers (CEOs), in voluntary disclosure. However, research evidence indicates that managerial characteristics such as CEO power may influence firm policies in that CEOs with strong power have an incentive to control information disclosure or engage in superior disclosure policy, depending on how the disclosure affects their authority and job (Goldman & Slezak, 2006; Song & Thakor, 2006). Moreover, in assessing the costs and benefits of whether to disclose information, managers rely on their own knowledge and interpretation to make these decisions (Lewis et al., 2014). As voluntary disclosures are subject to managerial discretion (Clarkson et al., 2008), we contend that CEO as a critical member of TMT¹ could be particularly important in facilitating or inhibiting voluntary disclosure practices and reporting decisions in a firm (see Chen, 2014; Haynes & Hillman, 2010). Despite this, research examining the role of CEO power in the link between ownership structure and CG disclosure has not been systematically examined (see Al-Bassam et al., 2018; Fulgence et al. (2023a)). In the context of East Africa, the CG codes allow the CEO's involvement in the selection/nomination and remuneration of the board members, which may lead to increased board co-option and reduce the board's monitoring effectiveness and the quality and quantity of information disclosure. Building on past empirical efforts which have paid little attention to sub-Saharan Africa, where CG systems are weak, this paper examines the effects of ownership structure on CG disclosure and how CEO power may moderate the effects of ownership structure (i.e. concentrated, managerial, and institutional ownership) on CG disclosure practices.

Two reasons drive our focus on East Africa. First, although there have been significant CG reforms, such as the 2010 East Africa Common Market and governance reforms and the 2015 East Africa Vision 2050, aimed at improving shareholder protection and corporate transparency (Fulgence, 2021; Ruparelia & Njuguna, 2016), the CG system in

¹As the chief information officer of a firm, the CEO is responsible for resource allocation, directing and communicating the firm's operational and strategic information to stakeholders (Minnick & Noga, 2010).

the region remains weak (Fulgence et al., 2023a; Waweru & Prot, 2018). Second, following the studies of La Porta et al. (1999), we argue that, unlike developed countries such as the US, the UK, Germany, and Japan, where a defused ownership structure is more prevalent (Desender et al., 2013; Rashid, 2016), East Africa is characterised by large controlling shareholders, weak protection of minority shareholders' interests, and strong social connections (see Fulgence et al., 2023a; Waweru & Prot, 2018). Thus, the differences in institutions between East African countries and the developed countries where most prior studies have focused may have implications for how ownership structure affects CG disclosure (Braga-Alves & Morey, 2012) and, therefore, warrant systematic examination.

Using a dataset comprising about 1,500 firm-year observations over a period of 2006–2021, this study finds that, whereas concentrated ownership has a negative effect, institutional ownership has a positive and significant association with CG disclosure. However, the effect of managerial ownership on CG disclosure is negative but insignificant. We also find that CEO power negatively moderates the link between ownership structure and CG disclosure, suggesting that CEO power reduces the effects of ownership structure on CG disclosure. Further analysis indicates that, whereas the effects of institutional and concentrated ownerships on CG disclosure remain unchanged irrespective of a firm's debt levels, the effect of managerial ownership on CG disclosure is driven by external pressures associated with debt financing.

This study offers two significant contributions to the existing literature. First, our study complements the studies examining the relationship between ownership structure and voluntary disclosure, such as Ntim et al. (2018), Boubaker et al. (2017), Al-Bassam et al. (2018), Elamer et al. (2019) and Barako et al. (2006), thereby contributing to CG literature. We document that while ownership concentration is negatively related to CG disclosure, institutional shareholding positively impacts CG disclosure. The findings suggest that higher levels of ownership concentration reduce CG disclosure, while institutional ownership appears to enhance CG disclosure practices. However, the negative effect of managerial ownership on CG disclosure suggests managerial entrenchment, thereby reducing the monitoring effectiveness and CG disclosure. The results provide evidence of how different ownership types have different effects on CG disclosures and demonstrate the extent to which agency theory explains the effects of ownership structure on CG disclosure practices.

Second, using a comprehensive CEO power index², our study extends prior literature by linking managerial characteristics, i.e. CEO power, to a firm's voluntary disclosure decisions in developing countries where institutions are weak. We document that a CEO with strong power weakens a firm's CG disclosure. To the best of our knowledge, our study is the first to do so, thereby providing a nuanced understanding of how CEO power influences CG disclosure. This finding supports the managerial hegemony theory, highlighting the importance of the board governance process in voluntary disclosure and, in particular, how CEO power moderates the influence of ownership structure on CG disclosure.

²The CEO power index comprises 15 CEO attributes. To the best of our knowledge, this is the first study to construct a comprehensive CEO power index in the context of East Africa. We focus on the moderation role of broader metrics of 15 CEO attributes – as a proxy for CEO power – to facilitate holistic insights and a broader generalisation of our findings regarding the importance of corporate boards and CEO power in compliance and corporate disclosure.

The remainder of this study is organised as follows: Section two discusses the institutional background of CG in East Africa. Section three reviews the theoretical literature and develops the study hypotheses. Section four outlines the research design and is followed by a discussion of the findings in section five. The final section summarises the conclusion of the study.

2. CG disclosure in East Africa

Existing studies (e.g. Mangena & Chamisa, 2008; Waweru & Prot, 2018) document that, unlike developed countries, African countries have weak institutions and a poor CG system³, resulting in poor corporate reporting. Firms in East Africa have relied on the Company's Act for CG and reporting guidance, which dates back to colonial days and is incapable of dealing with the emerging CG challenges of modern organisations (Waweru & Prot, 2018). As a result, firms in the region have witnessed several corporate failures over the past decades, which have affected investors' confidence (Norad, 2011; Ruparelia & Njuguna, 2016).⁴ To improve the corporate governance system and business environment, the East African Community Security Markets (EACSM) was established in 2002 to reform the CG system and enhance corporate financial performance and reporting quality (Wanyama et al., 2013; Wanyama & Olweny, 2013). In 2010, CG guidelines were harmonised among East African countries following the establishment and operationalisation of the East African Community Security Regulatory Authorities (EACSRA) and East African Community Common Market. To further improve the corporate reporting environment, the East African Community (EAC) Vision 2050 was enacted in 2015 (EAC Vision, 2050, 2016) to improve transparency, shareholders' rights, CG compliance, and corporate reporting quality.

Despite these CG reforms, CG practices in East Africa appear relatively weak (Ruparelia & Njuguna, 2016). Waweru and Prot (2018) argue that CG systems and codes in East Africa do not allow managers to be held accountable to definable key performance indicators, as the codes lack enforceability⁵, thereby making CG compliance and disclosure

³Particularly, the existing regulations are unclear about the consequences of and penalties for not complying with the CG guidance; as such, there is a loophole for firms to downplay the CG laws. These weaknesses have led to poor enforcement of corporate governance codes and regulations, and rampant corruption practices, lack of transparency, and misuse of public resources (Ruparelia & Njuguna, 2016; Waweru & Prot, 2018). For instance, the Global Financial Integrity Report (2014) reported that, due to weak institutional settings, poor reporting quality, and weak governance system, the three East African countries – Uganda, Kenya, and Tanzania – over the period of 2002–2011 reported annual tax revenue losses averaging between 7.4% and 12.7% of total revenue because of understating and mis-invoicing which easily passed both internal and external auditing processes.

⁴For instance, the collapse of 33 banks in Kenya in 1985 and the collapses of Uchumi supermarket and Mumia Sugar Company in Kenya are all linked to bad corporate governance (see Barako et al., 2006; Ruparelia & Njuguna, 2016). The external payment arrears (EPA) account involving about 96 million US dollars, an over-priced Radar deal of over 40 million UD dollars, and the Richmond, Dowans electricity power scandals, which involved about 172 billion in Tanzania (see Norad, 2011); the Chogm failure in 2007 and Green Land Bank failure in Uganda; hostile take-overs, and careless privatisation of enterprises in Rwanda are also mentioned as prominent scandals related to poor CG. The World Economic Forum (2012) and Ernst and Young (2013) reported that these scandals and corporate failures had dented the confidence of investors, lenders, and general stakeholders, and questioned the effectiveness of the boards, reporting standards, and the strength of investors' protection.

⁵This is because the CG guidelines issued in Tanzania, Kenya, and Uganda in 2001, 2002, and 2003 were based on the 'comply or explain' principle, the same as the 'apply or explain' CG guidance issued in 2015 (CMAU, 2003; CMAK, 2015). The primary institutions vested with the responsibility to oversee a firm's activities related to the CG code are capital market authorities, which look at CG compliance, and the country's tax authorities, which look at the firm's financial performance with a view to maximise tax collection. In this context, the integral feebleness of the

practices ineffective. In this context, how various shareholders respond to compliance and CG disclosure requirements in East Africa and the extent to which CEOs moderate shareholders' influence on CG disclosure are of paramount importance to both academics and practitioners but are less understood and warrant examination, and this study attempts to shed light on this.

3. Theory and hypothesis development

3.1. Theoretical background

The theoretical perspectives explaining the relationship between ownership structure and CG disclosure can be found in the studies of Al-Bassam et al. (2018) and Bozec and Bozec (2007). These include agency, legitimacy, stakeholder, and resource dependence theories. This study draws on the insights of agency and managerial hegemony theories to advance the extant literature on the effects of ownership structure and the moderating effect of CEOs on the link between ownership structure and CG disclosure.

Whilst agency theory highlights the potential conflict of interest between executive management and shareholders of the firm, managerial hegemony theory focuses on how CEO power may lead to distortions in corporate strategies (Badrinath et al., 1989; Malmendier & Tate, 2005), with implications for CG disclosure. From an agency theory standpoint, the nature and characteristics of the ownership structure of a firm may influence its economic outcomes and information disclosure (see Al-Bassam et al., 2018; Ali et al., 2022; Jensen & Meckling, 1976; Zaini et al., 2020). This is because ownership concentration, proportion of equity shareholding, and managerial stake in a firm influence how executive managers are effectively monitored and the firm's disclosure policies. For example, managerial shareholders as corporate insiders may find it mutually beneficial to cooperate with other senior managers on issues which jointly affect them, such as business risk and how much information to disclose to the public (Badrinath et al., 1989), to serve their interests. Thus, it may be argued that managerial shareholders may fail to perform an influential monitoring role, thereby affecting corporate voluntary disclosure (Sarhan & Ntim, 2019).

In contrast to agency theory, managerial hegemony theory posits that the owners' effectiveness in making decisions depends on the executives' intimate knowledge of the business (Mizruchi, 1983). This is consistent with power theories, which suggest that the executive's power originates from expertise and experience from executing operational duties and strategic responsibilities for the firm (Finkelstein, 1992). Against this backdrop, a powerful CEO has the capacity and managerial discretion to moderate corporate policies or drive the board towards a direction which may be detrimental to the shareholders but attractive to the CEO. It is important to point out that the strength of the CEO cannot be easily outweighed by "the policing methods employed by agency theory to 'keep agents in check'; either implicitly or explicitly, we can always treat CEO as functions" (L'Huillier, 2014, p. 306). Under the managerial hegemony theory, the CEO's power can mitigate or enhance the influence of ownership structure on CG disclosure. Taken together, an examination of agency and managerial hegemony

CG methods implemented in East Africa is that they are voluntary in nature; as such, they generate an opportunity for an unlevel playing field and provide no specific consequences for non-compliance.

theories indicates that agency theory seeks to avoid domination by executive management and reduce the potential opportunistic behaviour of executive management. Conversely, managerial hegemony theory recognises the dominant role of executive management and the marginal role of the board of directors. Although the two theories adopt different perspectives to explain the relationship between executive management and shareholders, they articulate this relationship as one between executive management and shareholders working together to affect firm decisions and outcomes. We, therefore, test the effects of ownership structure and interaction between ownership and CEO power on CG disclosure.

3.2. Hypotheses development

3.2.1. Ownership concentration and CG disclosure

Prior studies (Foss et al., 2021; Ge et al., 2021) suggest that ownership concentration should lead to efficient managerial monitoring and lower information asymmetry between executive management and shareholders. This is because concentrated owners have access to resources, skills, knowledge, and networks, which give them greater ability to monitor and control, hence greater disclosure. Thus, the block owners can directly influence managerial behaviour relative to dispersed ownership (Jensen & Meckling, 1976). However, the empirical literature regarding the association between ownership concentration and CG disclosure has been mixed (Garcia-Meca & Sanchez-Ballesta, 2010). While Boubaker et al. (2017) document a positive relationship, others such as Barako et al. (2006), Brammer and Pavelin (2006), Ntim et al. (2013), Al-Bassam et al. (2018), and Ge et al. (2021) report a negative relationship between ownership concentration and corporate disclosure. The studies of Eng and Mak (2003) and Craswell and Taylor (1992) found no association between ownership concentration and corporate disclosure.

In the context of East Africa, where institutions and CG systems are weak, we argue that block shareholders may disclose less regarding CG practices in that their actions are less likely to be questioned. Consequently, blockholders may behave opportunistically, abuse their power, and extract economic rents at the expense of minority shareholders. To evade public scrutiny and accountability, block shareholders tend to exhibit lower transparency in corporate reporting to escape activist crosshairs and media backlash (Fulgence et al., 2023a). This aligns with Ge et al. (2021), who argue that in an environment where institutions are weak, concentrated owners may be less compliant with voluntary disclosure requirements and disclose less CG information to keep a low public profile. Based on the above discussions, we hypothesise that:

H₁: Ownership concentration is negatively associated with the level of CG disclosure.

3.2.2. Managerial ownership and CG disclosure

From agency theory perspectives, managerial ownership may curb agency conflict between director ownership and other shareholders by harmonising their bases of interests (Goranova et al., 2007; Jensen & Meckling, 1976). Empirical studies such as those by Ang et al. (2000) and Singh et al. (2018) have supported the reduction of conflicts of interest and documented a positive influence of managerial ownership on CG disclosure. Conversely,

managerial hegemony theory holds that managerial ownership may not necessarily align principal-agent interests since executive managers may conduct themselves opportunistically and capitalise on the possession of insider information to pursue their interests, to the detriment of the shareholders (Chen & Al-Najjar, 2012). Indeed, L'Huillier (2014, p. 310) argues that higher managerial shareholding gives rise to a common question like “*to whom [are] the managers (who are also the shareholders) accountable?*” or “*for what purposes and to whom [is] the disclosure report ... directed?*” Ntim et al. (2017) argued that firms with higher managerial ownership experience limited external pressure for accountability to outside investors and may restrict corporate disclosure. Goranova et al. (2007) and Chen and Al-Najjar (2012) echo a similar view and argue that, in firms where managerial ownership is high, unless the managers have beneficial justifications or are faced with other external pressure, they may significantly lower the level of CG disclosure practice. Samaha et al. (2012) find managerial ownership to be negatively associated with corporate responsibility compliance but positive and insignificant for overall CG disclosure. Elmagrhi et al. (2016) document the negative impact of managerial shareholding on CG disclosure. The above arguments lead to our second hypothesis:

H₂: Managerial ownership is negatively associated with the level of CG disclosure.

3.2.3. Institutional ownership and CG disclosure

Institutional investors, who own and manage a large percentage of a firm's equity, are seen by managers, directors, and regulators as one of the most important market participants (Mahoney & Roberts, 2007). This is because institutional owners affect the firm's decisions and strategies, including CG disclosure, due to the relative strength of their voting power over other shareholders (Garcia-Sanchez et al., 2020). Thus, by virtue of their size, institutional investors have the skills, experience, and capacity to minimise agency problems for the following reasons: (i) institutional investors are better informed compared to individual shareholders and can play a leading role in shaping how firms are governed (Sarhan et al., 2019; Foss et al., 2021); and (ii) they have incentives, resources and monitoring channels at their disposal including voice and exit threats, shareholder proposals, site visits, and interactions with management to identify governance issues and enhance monitoring, which in turn improves management efficiency and transparency (Flammer et al., 2021; Song & Xian, 2024). For example, Flammer et al. (2021) point out that institutional investors can exert pressure through shareholder activism and demand managerial actions such as re-assessing organisational practices to address social and environmental issues and disclosure practices. From agency perspectives, institutional investors mitigate the gaps between what investors demand and what senior managers of a firm provide through shareholder activism, advice, and monitoring (Flammer et al., 2021).

On an empirical front, studies such as Bushee and Noe (2000) and Healy and Palepu (2001) have examined how institutional investors can influence a firm's disclosure decisions and show that increases in institutional ownership lead to improved voluntary disclosure. Similarly, Barako et al. (2006), Li et al. (2006), and Al-Bassam et al. (2018) report a positive relationship between institutional shareholders and CG disclosure. This suggests that institutional investors tend to actively monitor and engage with their portfolio firms, playing a leading role in shaping their governance and corporate reporting. Therefore, we hypothesise that:

H₃: Institutional shareholding is positively associated with the level of CG disclosure.

3.2.4. Ownership structure and CG disclosure: the role of CEO power

Prior literature documents that the power distribution between the corporate board and CEO determines whose interests are more likely to be served (Ntim et al., 2019). For example, Lewis et al. (2014) argue that powerful CEOs can veto strategies or resist policies and pressures perceived to be against their interests. In this context, the extent to which shareholders influence CG disclosure is more likely to be moderated by CEO power. CEOs in East Africa are involved in selecting boards of directors and may utilise their nomination role⁶ to build their empire by proposing non-executive directors closely aligned with top management (Fulgence, 2021). They also use their network to influence external stakeholders such as government, regulators, and investors to increase their power over time to help them resist internal and external pressures. As such, executive management, particularly CEOs, can significantly influence board members to tilt corporate policies in their favour and to the detriment of shareholders (Ali et al., 2022; Fulgence, 2021). Empirical evidence by Li et al. (2018) indicates that higher CEO power improves environmental, social, and governance disclosure. However, Garcia-Sanchez et al. (2021) find that greater CEO power reduces the disclosure of integrated information. Husted and De Sousa-Filho (2019) also found a negative effect of CEO power measured by CEO duality on governance disclosure. In the context of East Africa, where the institutions are weak, we expect CEO power to be more substantial and used to serve their interests. Thus, we hypothesise that:

H₄: The impact of concentrated, managerial, and institutional ownership on CG disclosure is negatively moderated by CEO power.

4. Data and research methodology

4.1. Sample selection, data source, and descriptions

We hand-collected our data from the East African firms' annual reports from 2006 to 2021⁷ East Africa has four stock exchanges, with 134 companies listed on them as of 2022. We exclude firms that do not have full-period data and those that have ceased registration. Our final sample comprises 96 listed companies, representing 71.64% of the entire population, as detailed in Appendix A.

4.2. Measurement of variables

4.2.1. Dependent variable

Our dependent variable is CG disclosure as a proxy of the CGDI. The index contains 11 sub-indices comprising 164 CG provisions constructed from the East African countries'

⁶In East Africa, the CG guidance recommends the nominating committee to consider the candidates nominated by the CEO, who is also a member of the nomination committee (CMAU, 2002; CMSA, 2002; CMAR, 2012; CMAK, 2015).

⁷Most of the East African corporate governance codes were enacted between 2002 and 2003, with effect from 2003 and 2004 (Waweru, 2014). Thus, we considered that, by 2006, most of the firms had implemented CG guidance. Before this period, most of the firms had no CG data available. We ended our period in 2021 since, by the time of data collection, this was the latest annual report data available.

CG codes (see Appendix C). Each item is measured using a dummy variable by assigning 1 if the item is presented in the annual report, otherwise 0. Thus, the actual score ranges from 0 to 164. We further scaled our score from 0% (suggesting poor compliance and CG disclosure practices) to 100% (suggesting perfect compliance and CG disclosure practices) using the un-weighted index approach as defined in equation (1) (Al-Bassam et al., 2018; Barako et al., 2006; Elmagrhi et al., 2016). Relative to other indices in previous studies, which used fewer items⁸, our index uses a large number of CG provisions (items) to ensure strong measures of the qualitative dissimilarities between firms precisely (Elmagrhi et al., 2016; Fulgence et al., 2023a).

$$CGDI_{it} = \left[\left(\sum_{i=1}^{n_{it}} Y_{lit} \right) \div n_{it} \right] * 100 \quad (1)$$

$$WCGDI_{it} = \left[\frac{s_{it}^{n1} + s_{it}^{n2} + s_{it}^{n3} + s_{it}^{n4} + s_{it}^{n5} + s_{it}^{n6} + s_{it}^{n7} + s_{it}^{n8} + s_{it}^{n9} + s_{it}^{n10} + s_{it}^{n11}}{11} \right] \quad (2)$$

Where $CGDI_{it}$ represents the dependent variable – corporate governance and disclosure index (in our study, it is commonly referred to as CG disclosure) – for the firm, “ i ”, at the time, t . The n_{it} = the number of provisions expected for the i^{th} firms at time t , n_{it} = 164 and Y_{lit} = 1 if the i^{th} provision is disclosed for firm i at time t , and otherwise 0. The $WCGDI_{it}$ represents the weighted average CGDI for firm “ i ” at time t .

4.2.2. Explanatory variables

The independent variables in this study are concentrated, institutional, and managerial ownership. We measure managerial ownership as the percentage of equity shares owned by managers/executive directors to the total value of the company’s equity shares (Banerjee & Homroy, 2018). Institutional ownership is measured as the percentage of equity shares owned by institutional investors to the total value of the company’s equity shares (Mahoney & Roberts, 2007). In line with Beuselinck et al. (2017), we measure concentrated ownership as the percentage of block ownership of 25% or more of the total value of a company’s equity shares owned by one investor/institution.

The moderating variable in our study is chief executive officer (CEO) power. Studies such as Finkelstein (1992) and Adams et al. (2010) contend that CEO influence over the board increases with CEO age, compensation, tenure, experience, co-option, firm performance, CEO chairing the board, membership in other firms, or membership of board nomination and remuneration committees. Prior studies measure CEO power as proxied by individual CEO attributes.⁹ However, we argue that individual attributes do not measure CEOs powerfully. Therefore, we combined the individual measures of CEO power used in previous studies (see Adams et al., 2010; Garcia-Sanchez et al.,

⁸For instance, the second largest index found was that by Elmagrhi et al. (2016), which was based on 120 items; Durne and Kim’s (2005) index was based on 97 items, whereas Klapper and Love (2004) and Abdallah and Ismail’s (2017) indices consist of 57 items. The indices with a very low number of items are those by Bebchuk et al. (2009), which were based on 24 items, whereas the Da Silveira et al. (2010) index was based on only 20 items.

⁹See previous studies such as Adams et al. (2010) and Abebe and Alvaro (2013), which proxied CEO power using three items [(i) CEO power as the only insider sitting on the board; (ii) CEO as a founder of the firm; and (iii) CEO-Chair duality]; each stands alone as a CEO power proxy. Park and Yoo (2016) proxied CEO power as the CEO tenure. Veprauskaite and Adams (2013) proxied CEO power as CEO share ownership, CEO-Chair duality, and CEO tenure, each as a stand-alone proxy for CEO power.

2021; Veprauskaite & Adams, 2013) to generate a comprehensive CEO power index of fifteen (15) CEO attributes (see Appendix D) as a measure of CEO power.

4.2.3. Control variables

Gyapong et al. (2016) and Jung et al. (2018) document that firm characteristics such as firm size, age, assets' age, performance, and investment opportunity affect CG disclosure. We control for firm size (*FSZ*), measured as the natural logarithm of total assets; firm age (*FAG*), measured as the number of years since the firm's establishment; firm assets' newness (*FAN*), measured as a ratio of net property, plant, and equipment (PPE) to the gross value of PPE; firm performance (*ROS*), measured as return on sales (Chizema et al., 2015); firms' retained earnings (*RET*), measured as the ratio of the total retained earnings to total assets; and investment opportunities (*IOP*), measured as a ratio of capital expenditure to total assets (Waweru & Prot, 2018).

Existing studies (see Al-Bassam et al., 2018; Ntim et al., 2017) suggest that corporate governance mechanisms such as audit firm size, board size, and board diversity influence how firms respond to compliance and CG disclosure practices. Therefore, we control for audit firm size (*AFS*), measured using a dummy variable that equals 1 if the auditing firm is among the Big Four, and 0 otherwise (Al-Bassam et al., 2018); board diversity (*BDT*), measured as a percentage of ethnic minorities and female directors in the boardroom (Jung et al., 2018); and board size (*BSZ*), measured as total number of directors in the boardroom during a financial period (Ntim et al., 2017).

4.3. Method of analysis and model specification

In this paper, we use panel data due to its ability to control for individual heterogeneity (Hsiao, 1986). However, it is argued that individual heterogeneity can only be controlled provided appropriate techniques are used. We carried out a raft diagnosis based on Kennedy's (2008) recommendation for our panel estimation. In line with Breusch and Pagan (1980), the Lagrange Multiplier (LM) test was conducted to determine the suitability of either random effects or a pooled OLS regression model. The test indicates the null hypothesis of zero variance across the entities, suggesting that pooled OLS is suitable. We further performed a Hausman test, rejecting the null hypothesis that the individual effects are uncorrelated with the regressors. Based on the Hausman test, we adopted a fixed effect (FE) regression to capture unobservable firm-level differences such as firm complexity, corporate culture, and managerial quality (Banerjee & Homroy, 2018). We used the equations below to test our hypotheses.

$$CGDI_{it} = \alpha_0 + \beta_i Ownership_{it} + \sum_{i=1}^9 \beta_i ContV_{kit} + \gamma_{it} + \varepsilon_{it} \quad (3)$$

Where the dependent variable $CGDI_{it}$ denotes the CG disclosure index. The $Ownership_{it}$ variables are CSO, ISO, and MSO. The $ContV_{kit}$ refers to a vector of control variables, namely BSZ, BDT, FAN, FSZ, AFS, FAG, RET, ROS, IOP, k, for

firm “i” in year “t”, where $k=1$ to 12; γ_{it} represents dummy variables (including industry and year dummies), and ε_{it} represents the unobserved standard error term clustered at the firm level, and heteroscedasticity – robust t -statistics are obtained. Equation (4) is used to examine the moderating role as a further analysis.

$$CGDI_{it} = \alpha_0 + \beta_i CEOP_{it} + \beta_i Ownership_{it} + \beta_i INTER_{it} + \sum_{i=1}^9 \beta_i ContV_{kit} + \gamma_{it} + \varepsilon_{it} \quad (4)$$

Where CEOP refers to CEO power and INTER refers to the interaction variables between ownership and CEOP, including $CSO \times CEOP$, $ISO \times CEOP$, and $MSO \times CEOP$. The definitions for $Ownership_{it}$, CV_{kit} , γ_{it} , and ε_{it} remain the same as in equation 3.

We winsorise all variables using the 1st and 99th percentiles to reduce the effect of outliers. In line with Gyapong et al. (2016), we mean-centre all interactive variables to eliminate unessential ill-conditional results because of collinearity, which may have originated from the interactive models. We employ SGMM estimation to account for endogeneity, simultaneity, and heterogeneity concerns (Arellano & Bover, 1995; Blundell & Bond, 1998).

5. Results and discussion

5.1. Descriptive statistics and correlation matrix

Table 1 reports descriptive statistics. The analysis suggests that the distribution of CGDI, concentrated (CSO), managerial (MSO), and institutional shareholding (ISO) variables vary substantially. For instance, the CGDI, ISO, CSO, and MSO record averages of 58.9%, 74.2%, 40.1%, and 3.1%, respectively. Compared to the prior studies (e.g. Rashid, 2016), the average recorded concentrated ownership is significantly higher relative to those recorded in the developed countries. On average, CGDI and BIN show an overall increase during the period, while CSO and CEOP evidence a substantial decrease.

Consistent with Bruton et al. (2010), the correlation matrix reported in Table 2 shows a low association between CG disclosure and ownership structure. The highest variance inflation factor (VIF) is 3.79, which is below a threshold of 5 (Hair et al., 1995), suggesting that the multicollinearity problem is not an issue in this study.

5.2. Regression results: effects of ownership structure on CG disclosure

The effects of ownership types, namely, concentrated, managerial, and institutional ownership, on CG disclosure are reported in models 1–3 of Table 3¹⁰ using equation (3). Regarding the effects of ownership concentration on CG disclosure, our results in model 1 of Table 3 show that concentrated ownership exerts a negative and significant

¹⁰Both OLS and fixed effects (FE) regression results are quantitatively similar. Thus, for brevity and to avoid duplication, we only report the FE. To ensure the robustness of our results in case of the presence of heteroscedasticity and autocorrelation, we follow existing studies such as Zhu et al. (2019) and adopt the Newey-West estimator, which provides accurate and consistent results as it uses the lagged value of an indicator. Untabulated results remain quantitatively unchanged.

Table 1. Summary of descriptive statistics and country-wise comparison before and after the 2015 EAC Vision 2050.

Variable	Mean	Std. Dev.	Min	Max	Difference in mean of variables before and after 2015 – the EAC Vision 2050				
					Entire Sample	Kenya	Tanzania	Uganda	Rwanda
CGDI	0.589	0.173	0.196	0.873	0.132***	0.126***	0.119***	0.146***	0.144***
CSO	0.401	0.294	0.000	0.735	-0.022***	-0.022**	0.028*	-0.014*	-0.036**
MSO	0.031	0.094	0.000	0.661	0.005	0.010*	-0.001	0.001	-0.007
ISO	0.742	0.173	0.228	0.942	0.015*	0.007	0.017	0.030*	0.029
BIN	0.468	0.136	0.000	0.700	0.086***	0.074***	0.101***	0.112***	0.078***
CEOP	0.370	0.200	0.067	0.933	-0.063***	-0.062***	-0.064***	-0.060***	-0.074***
BSZ	10.107	3.135	4.000	17.000	2.810***	2.457***	2.928***	3.680***	3.114***
BDT	5.068	2.972	0.000	15.000	2.383***	2.246***	2.624***	3.671***	2.124***
FAN	0.599	0.245	0.106	1.556	-0.037***	-0.019	-0.081***	-0.039	-0.049*
FSZ	16.935	2.118	12.063	21.910	1.262***	1.243***	1.216***	1.300***	1.431***
AFS	0.934	0.249	0.000	1.000	0.023**	0.007	0.056***	0.029	0.043*
FAG	3.891	0.648	1.386	4.920	0.200***	0.170***	0.263***	0.244***	0.162*
RET	-1.113	1.921	-6.542	3.102	0.604	0.592***	0.476**	0.700***	0.793*
ROS	0.478	1.422	-0.912	8.228	1.001***	0.877***	0.799***	1.352***	1.700***
IOP	9.205	5.772	-0.930	18.140	-5.906***	-5.878***	-6.737***	-5.382***	-5.256***

Note: All variables are as defined in Appendix B. The statistical significance is reported against 10% (*), 5% (**), and 1% (***) significance levels, respectively.

Table 2. Pearson's correlation matrix of all variables used in the analyses.

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	VIF
(1) CGDI	1.000															1.06
(2) CSO	0.028	1.000														1.40
(3) MSO	0.180	0.045	1.000													1.44
(4) ISO	0.068	-0.045	- 0.480	1.000												1.90
(5) BIN	0.714	0.052	0.081	0.084	1.000											2.68
(6) CEOP	- 0.718	0.040	-0.047	- 0.102	- 0.466	1.000										2.90
(7) BSZ	0.561	- 0.071	0.012	0.038	0.384	- 0.433	1.000									2.12
(8) BDT	0.462	- 0.053	- 0.087	0.112	0.272	- 0.326	0.669	1.000								1.13
(9) FAN	-0.042	0.120	0.035	0.032	0.105	-0.004	- 0.099	- 0.179	1.000							3.79
(10) FSZ	0.749	0.036	0.037	0.138	0.542	- 0.524	0.599	0.444	- 0.060	1.000						1.26
(11) AFS	0.256	-0.013	- 0.094	0.129	0.226	- 0.246	0.280	0.155	-0.007	0.398	1.000					1.18
(12) FAG	0.180	-0.006	0.051	- 0.058	0.214	- 0.101	0.190	0.162	-0.030	0.054	0.013	1.000				3.61
(13) RET	0.613	0.024	0.027	0.159	0.429	- 0.411	0.445	0.391	-0.036	0.811	0.330	0.142	1.000			2.21
(14) ROS	0.368	-0.041	0.114	0.050	0.246	- 0.159	0.371	0.294	- 0.091	0.476	0.084	0.136	0.433	1.000		2.21
(15) IOP	0.060	0.031	-0.025	0.074	0.039	-0.026	- 0.152	- 0.198	0.015	0.148	0.139	- 0.073	0.220	- 0.142	1.000	2.41

Note: All variables are as defined in Appendix B. For brevity, all values statistically significant at 5% are in bold.

Table 3. The Fixed Effect Results – Impacts Ownership Structure on CG Disclosure.

Variables	Direct Models			CEO Power: Interactive Models		
	1	2	3	4	5	6
CSO	-0.092*** (-3.10)			-0.070** (-2.41)		
MSO		-0.006 (-0.88)			-0.001 (-0.14)	
ISO			0.091*** (5.28)			0.027* (1.66)
CEOP				-0.127*** (-6.09)	-0.127*** (-5.77)	-0.130*** (-6.69)
CSO × CEOP				-0.228*** (-4.72)		
MSO × CEOP					-0.123*** (-3.82)	
ISO × CEOP						-0.237*** (-3.17)
BSZ	0.003 (1.34)	0.003 (1.37)	0.003 (1.66)	0.003* (1.94)	0.003* (1.84)	0.004* (1.96)
BDT	0.004** (2.48)	0.004** (2.29)	0.002 (1.45)	0.003** (2.30)	0.003** (2.06)	0.003* (1.95)
FAN	0.000 (0.12)	0.000 (0.15)	0.000 (0.01)	-0.000 (-0.11)	0.000 (0.06)	0.000 (0.32)
FSZ	0.013** (2.22)	0.013** (2.11)	0.012** (2.09)	0.015** (2.58)	0.015*** (2.64)	0.015*** (2.77)
AFS	0.001 (0.09)	0.005 (0.31)	0.001 (0.08)	0.002 (0.11)	0.008 (0.50)	0.002 (0.16)
FAG	0.005 (0.35)	0.004 (0.26)	-0.003 (-0.19)	0.009 (0.68)	0.008 (0.58)	0.010 (0.73)
RET	-0.000*** (-5.61)	-0.000*** (-5.42)	-0.000*** (-6.48)	-0.000*** (-4.13)	-0.000*** (-4.35)	-0.000*** (-3.91)
ROS	0.002** (2.14)	0.002** (2.36)	0.002** (2.35)	0.002** (2.23)	0.002** (2.39)	0.002** (2.60)
IOP	-0.002** (-2.14)	-0.002** (-2.34)	-0.002** (-2.33)	-0.002** (-2.27)	-0.002** (-2.41)	-0.002*** (-2.64)
Constant	0.141 (1.55)	0.147 (1.58)	0.137 (1.59)	0.106 (1.16)	0.100 (1.08)	0.100 (1.16)
Adjusted R ²	0.839	0.836	0.849	0.856	0.853	0.856
Observations	1536	1536	1536	1536	1536	1536

Note: The dependent variable in all models is CGDI. All variables are as defined in Appendix B. For tractable interpretation, all the coefficients are reported as elasticity, and the statistical significance is reported against 10% (*), 5% (**), and 1% (***) significance levels, respectively.

influence on CG disclosure. The findings indicate that one standard deviation (i.e. 0.294) change (increase) in concentrated ownership is associated with about a 2.74% [100(EXP (-0.092 × 0.294) - 1)] decrease in CG disclosure. Therefore, hypothesis one (H₁) is supported. The results align with Samaha et al. (2012) and Al-Bassam et al. (2018), who reported a negative impact of ownership concentration on CG disclosure practices. Our findings suggest that large ownership increases conflicts of interest between controlling and minority shareholders as large shareholders may pursue their interests (Shleifer & Vishny, 1997), thereby lowering the level of voluntary disclosure. Another plausible explanation may be that, as blockholders have a strong monitoring capacity due to their high ownership stake and resources, they appear to insulate themselves against internal and external pressure (Grassa et al. (2021)). Considering their vast network and resource access, blockholders may not be prepared to subject themselves to public scrutiny and accountability, thereby disclosing less for self-serving benefits.

The effects of managerial shareholding are reported in model 2 of Table 3. The coefficient of managerial ownership is negative and statistically insignificant, suggesting that managerial shareholders do not influence voluntary disclosure in an environment with underdeveloped institutions. Hypothesis two (H_2) is therefore not supported.

The results of the effects of institutional ownership on CG disclosure are reported in Table 3. As shown in model 3 of the table, the coefficient is positive and statistically significant, indicating that institutional ownership increases CG disclosure. Economically, the findings suggest that one standard deviation (i.e. 0.173) change (increase) in institutional ownership is associated with about a 1.59% [$100(\text{EXP}(0.091 \times 0.173) - 1)$] increase in CG disclosure. Hypothesis three (H_3) is therefore supported. Our findings support the view that institutional shareholders are incentivised to carry out effective monitoring by virtue of their size, resources, and expertise. Hence, they may mitigate agency problems (see Shleifer & Vishny, 1986), thereby increasing voluntary disclosure. The results support past studies such as Al-Bassam et al. (2018), who found that a higher level of CG disclosure is associated with institutional ownership in Saudi Arabian companies. Another plausible explanation for the positive effect of institutional investors may be to maintain their public reputation and gain legitimacy, as argued by Chen and Roberts (2010) and Ntim et al. (2017). These authors argue that institutional investors are more likely to comply with existing societal standards as a self-legitimation process.

5.3. Moderating role of CEO power

We examine the moderating role of CEO power (CEOP) using equation (4) and report the results in models 4, 5, and 6 of Table 3. The results show that the combined effects of $\text{CSO} \times \text{CEOP}$, $\text{MSO} \times \text{CEOP}$, and $\text{ISO} \times \text{CEOP}$ reduce CG disclosure. Economically, the findings show that one standard deviation (i.e. 0.200) change (increase) in CEO power is associated with about a 28.84%, 16%, and 19.41% [$100(\text{EXP}(-0.228 + (-0.127 \times 0.200)) - 1)$], [$100(\text{EXP}(-0.123 + (-0.127 \times 0.200)) - 1)$], and [$100(\text{EXP}(-0.130 + (-0.237 \times 0.200)) - 1)$]] decrease in CG disclosure, respectively. The findings suggest that the CEO tends to negatively moderate the effects of managerial ownership, ownership concentration, and institutional ownership on CG disclosure. The findings support the managerial hegemony theory in that increasing CEO power allows the CEO to influence corporate policies relative to the board of directors.

5.4. Addressing endogeneity concerns, sensitivity and robustness check

5.4.1. Two-stage system generalised method of moments (SGMM)

Wintoki et al. (2012) contend that endogeneity in the form of simultaneity and reverse causality is a source of concern in corporate governance research. In this study, ownership types such as institutional and concentrated ownership may drive CG changes and information disclosure practices in some environments; however, in others, ownership types may change in response to government regulatory changes. We follow Arellano and Bond (1991), Arellano and Bover (1995), and Singh et al. (2018) and utilise a two-stage SGMM with the lagged dependent variable as an internally generated instrument to address potential dynamic endogeneity concerns such as simultaneity and reverse causality. Consistent with the approach proposed by Wintoki et al. (2012), we lagged

Table 4. The SGMM Results – Impact of Ownership Structure on CG Disclosure.

Variables	Direct Models			CEO Power: Interactive Models		
	1	2	3	4	5	6
L2.CGDI	0.665*** (4.50)	0.508* (1.97)	0.752** (2.61)	0.220* (1.90)	0.145*** (3.21)	0.567*** (5.24)
CSO	-0.361* (-1.87)			0.076 (0.61)		
MSO		0.198 (1.19)			0.548 (1.04)	
ISO			0.142** (2.33)			0.126 (0.92)
CEOP				-0.234*** (-2.87)	-0.313*** (-4.13)	-0.295** (-2.36)
CSO × CEOP				-0.640*** (-3.91)		
MSO × CEOP					-1.024** (-2.48)	
ISO × CEOP						-1.434** (-2.38)
BSZ	-0.008 (-1.57)	0.000 (0.01)	0.000 (0.00)	0.001 (0.20)	-0.001 (-0.33)	0.008 (1.37)
BDT	0.015** (2.31)	0.009 (1.06)	-0.004 (-0.80)	0.016 (1.50)	0.012 (1.44)	0.002 (0.28)
FAN	-0.039 (-1.28)	-0.018 (-1.00)	-0.008 (-0.50)	-0.012 (-1.02)	-0.018 (-1.23)	-0.009 (-0.50)
FSZ	0.026** (2.16)	0.024** (2.27)	-0.006 (-0.33)	0.024* (1.79)	0.034*** (3.36)	0.014 (1.27)
AFS	0.058 (0.96)	0.054 (0.44)	0.072 (0.84)	-0.015 (-0.23)	-0.068 (-0.96)	-0.069 (-1.16)
FAG	-0.016 (-0.29)	0.074 (0.79)	0.069 (0.61)	-0.075 (-0.73)	-0.009 (-0.14)	-0.122 (-1.14)
RET	0.000 (0.04)	-0.000 (-0.23)	-0.000 (-0.76)	0.000 (0.36)	-0.000 (-0.43)	0.000 (0.36)
ROS	0.002 (1.51)	0.001 (0.74)	0.002 (0.92)	-0.001 (-0.21)	0.002 (1.22)	0.006 (1.59)
IOP	-0.002 (-1.43)	-0.001 (-0.74)	-0.002 (-0.88)	0.001 (0.18)	-0.002 (-1.18)	-0.005 (-1.56)
Constant	0.115 (0.46)	-0.236 (-0.64)	-0.321 (-0.56)	0.716 (1.10)	0.215 (0.59)	0.678 (0.99)
Observations	1344	1344	1344	1344	1344	1344
No. of instruments	53	53	53	55	55	55
AR1(<i>p</i> -value)	0.067	0.037	0.009	0.038	0.009	0.001
AR2(<i>p</i> -value)	0.392	0.126	0.213	0.462	0.345	0.402
Hansen J(<i>p</i> -value)	0.251	0.349	0.304	0.528	0.686	0.640
Hansen J Statistics	32.264	37.774	48.094	21.869	19.256	20.977
Sargan(<i>p</i> -value)	0.211	0.259	0.359	0.306	0.661	0.482
Sargan Statistics	30.357	36.919	56.544	25.900	19.684	17.148
No. of groups	96	96	96	96	96	96

Notes: This table reports the results of the SGMM regressions with orthogonal deviations. The dependent variable in all models is CGDI. All models control for industry and year effect. Correlation 1 (AR1) and correlation 2 (AR2) are the first-order and second-order autocorrelation of residuals, respectively. The Sargan and Hansen tests are tests of over-identifying restrictions. All variables are as defined in Appendix B. For tractable interpretation, all the coefficients are reported as elasticity, and the statistical significance is reported against 10% (*), 5% (**), and 1% (***) significance levels, respectively.

the dependent variable as an internally generated instrument in running an SGMM. The results reported in Table 4 support our baseline regression results. In all the results, the F-Statistics *p*-values are significant at less than 0.1, indicating that the regressors are jointly significant in explaining the dependent variables (Arellano & Bover, 1995). We further report the Arellano-Bond tests to check whether the idiosyncratic error term is serially correlated; the results show that the idiosyncratic error term is serially uncorrelated.

Table 5. The Fixed Effect Results – Impact of Ownership Structure on Weighted CGDI.

Variables	Direct Models			CEO Power: Interactive Models		
	1	2	3	4	5	6
CSO	-0.086*** (-3.21)			-0.071** (-2.48)		
MSO		-0.008 (-1.26)			-0.004 (-0.41)	
ISO			0.071*** (4.16)			0.017* (1.73)
CEOP				-0.116*** (-5.92)	-0.116*** (-5.71)	-0.119*** (-6.43)
CSO × CEOP				-0.166*** (-3.25)		
MSO × CEOP					-0.108*** (-4.70)	
ISO × CEOP						-0.202*** (-3.18)
Constant	0.060 (0.73)	0.067 (0.79)	0.058 (0.70)	0.028 (0.34)	0.024 (0.29)	0.020 (0.26)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Industry Effect	Yes	Yes	Yes	Yes	Yes	Yes
Year Effect	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R ²	0.837	0.834	0.843	0.852	0.849	0.852
Observations	1536	1536	1536	1536	1536	1536

Note: The dependent variable in all models is WCGDI. All variables are as defined in Appendix 2. For tractable interpretation, all the coefficients are reported as elasticity, and the statistical significance is reported against 10% (*), 5% (**), and 1% (***) significance levels, respectively.

Similarly, we report the Hansen and Sargent tests to check the validity of our instruments and over-identification restrictions. The results are within the acceptable range (above 0.2), confirming the validity and reliability of the models (Hansen, 1982).

5.4.2. The alternative measure of CG disclosure – weighted average method

The index comprises 164 items grouped into 11 sub-indices. Each sub-index contains a different number of items (see Appendix C). As shown in equation (1), each item is equally considered in building up the main index, irrespective of the content of each sub-index. This means our main index is unweighted. Waweru and Prot (2018) and Elmagrhi et al. (2016) maintain that allocating different items to each sub-index is more likely to lead to bias in constructing the main index and may misrepresent the key findings. Following Gyapong et al. (2016) and Waweru and Prot (2018), we formulate a weighted average CG disclosure index (WCGDI) (see equation 2). The results reported in Table 5 remain similar to our baseline results.

5.4.3. The alternative measure of CG disclosure – principal component analysis (PCA)

Lettau and Pelger (2020) contend that no general theory offers guidance on the selection of items to measure the extent of voluntary disclosure. As a result, prior literature has incorporated a range of items in the index that may not measure CGDI (see Brown & Caylor, 2006). Therefore, to identify the most relevant corporate governance provisions that may improve the validity and reliability of our index, we also use principal component analysis (PCA)¹¹ to derive an alternative measure of CGDI. We employ exploratory analysis using a varimax rotation procedure to identify the underlying components

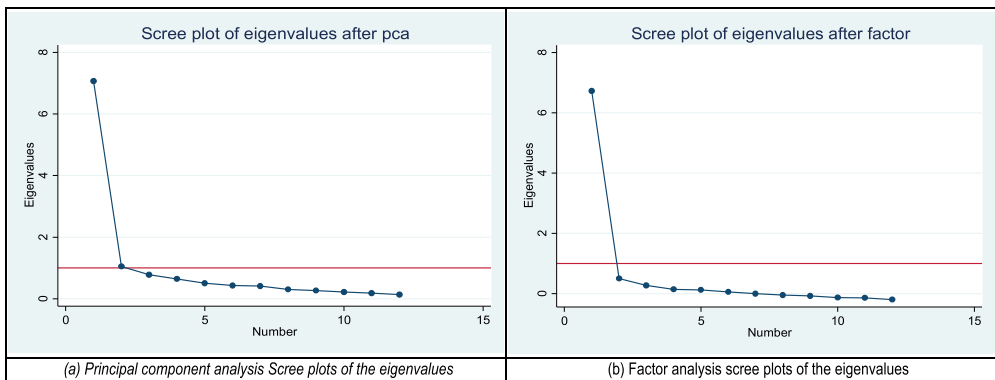


Figure 1. Scree plot of the eigenvalues. (a) Principal component analysis Scree plots of the eigenvalues; (b) Factor analysis scree plots of the eigenvalues.

of the 164 CG provisions associated with each component and retain components with eigenvalues greater than 1 (see Figure 1). The analysis produced components accounting for 81% (equivalent to 133 provisions) of the observed variance. We use the Kaiser-Meyer-Olkin measure of sampling adequacy, which returns an overall value of 0.9263, indicating robust sampling adequacy. To establish whether our instruments have internal consistency and reliability, we also use Cronbach's Alpha, which returns an average inter-item covariance of 0.034 and a scale reliability coefficient of 0.9127, which are within the acceptable range. Our regression results reported in Table 6 continue to support our baseline results.

5.4.4. Highly indebted and less indebted firms

Grassa et al. (2021) argued that in an environment where institutions are weak, external pressures drive the response to CG disclosure and compliance requirements. To examine whether our results are driven by financial pressure, we calculate the firm's leverage as a ratio of total interest-bearing debt to total assets and further calculate the annual growth rate (increase/decrease) of interest-bearing debt. We then divided our sample into two sub-samples¹² and re-estimated our main model. We report the results for highly indebted firms with increasing value of interest-bearing debt in model 7 and those for less indebted firms with decreasing value of interest-bearing debt in model 8 of Appendix G. The results show that the effect of concentrated and institutional ownership on CG disclosure remains quantitatively unchanged. However, the results for managerial ownership are negative for less indebted firms and positive for highly indebted firms, suggesting that highly indebted firms are more likely to demonstrate higher compliance with and disclosure of CG information relative to less indebted firms. The results align with Desender et al. (2013), who argue that firms with a higher proportion of managerial shareholding are owned-managed, where self-reporting becomes a common practice.

¹¹PCA is a statistical technique often used to reduce a large number of overlapping variables to a much smaller set of underlying factors that succinctly represent different dimensions of a broader concept.

¹²We call sub-sample 1 highly indebted companies where a company's leverage ratio is greater than or equal to median and/or where its annual interest-bearing debt is increasing. Sub-sample 2 consists of the less indebted companies with leverage ratio less than median and/or decreasing annual interest-bearing debt.

Table 6. The Impact of Ownership Structure on CG Disclosure using PCA.

Variables	Direct Models			CEO Power: Interactive Models		
	1	2	3	4	5	6
CSO	-0.069** (-2.13)			0.063* (1.75)		
MSO		-0.008 (-1.07)			-0.047** (-2.48)	
ISO			0.068*** (3.53)			0.030 (1.57)
CEOP				-0.181*** (-7.94)	-0.180*** (-8.12)	-0.183*** (-8.13)
CSO × CEOP				-0.318** (-1.99)		
MSO × CEOP					-0.182* (-1.70)	
ISO × CEOP						-0.201** (-2.47)
Constant	0.282*** (2.84)	0.289*** (2.85)	0.279*** (2.79)	0.081 (0.79)	0.088 (0.90)	0.076 (0.75)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Industry Effect	Yes	Yes	Yes	Yes	Yes	Yes
Year Effect	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R ²	0.808	0.807	0.814	0.732	0.733	0.733
Observations	1536	1536	1536	1536	1536	1536

Note: The dependent variable in all models is CGDI. All variables are as defined in Appendix B. For tractable interpretation, all the coefficients are reported as elasticity, and the statistical significance is reported against 10% (*), 5% (**), and 1% (***) significance levels, respectively.

Indeed, Banerjee and Homroy (2018) and Grassa et al. (2021) argue that unless disclosure is mandatory or existing external pressure is exerted, managers in owned-managed firms may abstain from compliance with and disclosure of CG information.

5.4.5. The moderating role of independent and non-independent boards

To ensure that shareholders' interest is attained, agency theory advocates board independence as a cornerstone of board effectiveness and efficiency (Fama & Jensen, 1983; Jensen & Meckling, 1976; Ntim & Soobaroyen, 2013). However, managerial hegemony theory contends that the board's effectiveness depends on the managers' intimate business knowledge (Mallin & Ow-Yong, 2012). The theory maintains that professional managers can drive the board towards the direction of their interests (Pettigrew & Mcnulty, 1995). We examine whether our results are affected by the presence or absence of an independent board by dividing our sample into two sub-samples – independent and non-independent – and re-estimating our main model. We report the results for the independent boards in model 3 and non-independent boards in model 4 of Table 7. The results show that the influence of managerial ownership is negative and statistically insignificant for independent and non-independent boards. However, while we find the effect of concentrated ownership exerting a negative influence, with the finding being marked for non-independent boards compared to independent boards, the positive influence of institutional ownership is more pronounced for independent boards. Taken together, independent directors play a crucial role in the board's monitoring and efficiency.

Second, we include board independence as a second moderating variable to estimate the combined effect of board independence and CEO power and report the results in



Table 7. Debt, board independence status and combined moderating role.

Variables	Debt status		Independence Status		CEO Power & Independence: Interactive Model		
	1	2	3	4	5	6	7
	Indebt	Non-Indebt	INB	Non-INB			
CSO	-0.101*** (-2.97)	-0.087* (-1.74)	-0.060* (-1.76)	-0.387*** (-3.01)	-0.091*** (-2.88)		
MSO	0.061*** (3.82)	-0.016** (-2.10)	-0.013 (-1.54)	-0.006 (-0.45)		-0.029** (-2.38)	
ISO	0.096*** (3.50)	0.098*** (4.05)	0.374*** (4.33)	0.050** (2.01)			0.322*** (3.30)
CEOP					-0.125*** (-5.96)	-0.121*** (-5.74)	-0.125*** (-6.20)
BIN					0.170*** (5.16)	0.181*** (5.18)	0.170*** (5.02)
CSO × CEOP					-0.147*** (-3.08)		
CSO × BIN					0.172*** (4.80)		
CEOP × BIN					0.167 (1.01)	0.143 (0.81)	0.202 (1.26)
CSO × CEOP × BIN					-1.458 (-1.56)		
MSO × CEOP						-0.107*** (-3.08)	
MSO × BIN						0.166* (-1.76)	

models 5, 6, and 7. The results in the three models support our baseline results for $CSO \times CEOP$, $MSO \times CEOP$, and $ISO \times CEOP$ in models 4, 5, and 6 of Table 3. Model 5 shows that, while the $CSO \times BIN$ is positive and significant, this result reverses to negative when CEO power is introduced into the interaction term (see $CSO \times CEOP \times BIN$). In model 6, the $MSO \times BIN$ is negative and statistically significant; however, the negative effect is strengthened after introducing CEO power into the interaction term (see $MSO \times CEOP \times BIN$). In model 7, the $ISO \times BIN$ is positive and statistically significant; however, this result turns insignificant with the addition of CEO power to the interaction variables (see $ISO \times CEOP \times BIN$). The findings with respect to CEO power support managerial hegemony theory. It is important to point out that while board independence is essential in curbing the principal-agent problem, this appears possible in the absence of managerial shareholding (see model 6 $MSO \times CEOP$) and powerful CEOs. This implies that while board independence weakens the negative association between concentrated ownership and CG disclosure and strengthens the positive influence of institutional shareholders on CG disclosure¹³, their influences are impaired as the managerial shareholding and CEO power increase. The findings support the managerial hegemony theory, indicating that the increase in CEO power and equity shares held by management impairs board efficiency and limits the role of promoting transparency, compliance, and CG disclosure practices (Boubaker et al., 2017; Chen & Roberts, 2010).

5.5. Additional analysis

5.5.1. Sensitivity to alternative sample selection and standard error clustering schemes

Following the work of Hu et al. (2020), we further checked whether our results are sensitive to alternative sample selection and standard error clustering schemes. First, Appendix A indicates that Kenya is the major country in our sample. Also, it indicates that non-service sector firms represent a significant portion of our sample. To assess whether Kenya drives our results, we replicate our main tests by excluding firms from Kenya and find robust results, as reported in Appendix E.¹⁴

Second, our approach follows Fulgence et al. (2023b) to analyse whether the crisis period of 2008/2009 and the COVID-19 period 2019–2021 affect our baseline results. We exclude these periods from our sample and re-run our regressions. The results reported in Appendix F continue to support our baseline results. This reiteration of the robustness of our findings should instil confidence in the research outcomes.

Third, there were major changes to the CG for East Africa incorporated into the East African Community Vision 2050 enacted in 2015, which came into effect in 2016. Similarly, in 2015, Kenya embarked on significant CG reforms, which changed their CG code from “*comply or explain*” to “*apply or explain*”, which also came into effect in 2016. We argue that these changes may affect our results and therefore excluded the post-2015 period from the analysis. Our results, not reported, remain unchanged. We followed Hu et al. (2020) and used a two-way cluster based on firm and country years to adjust standard errors, but our results remain consistent (see models 1–6 of Appendix E for details).

¹³This is in line with previous studies such as Jiang et al. (2020), who evidence that good corporate governance (in the form of higher board independence) can better avoid blockholders' opportunism. The results support agency theory.

¹⁴Also, untabulated results excluding non-service sector firms continue to render support to our main findings.

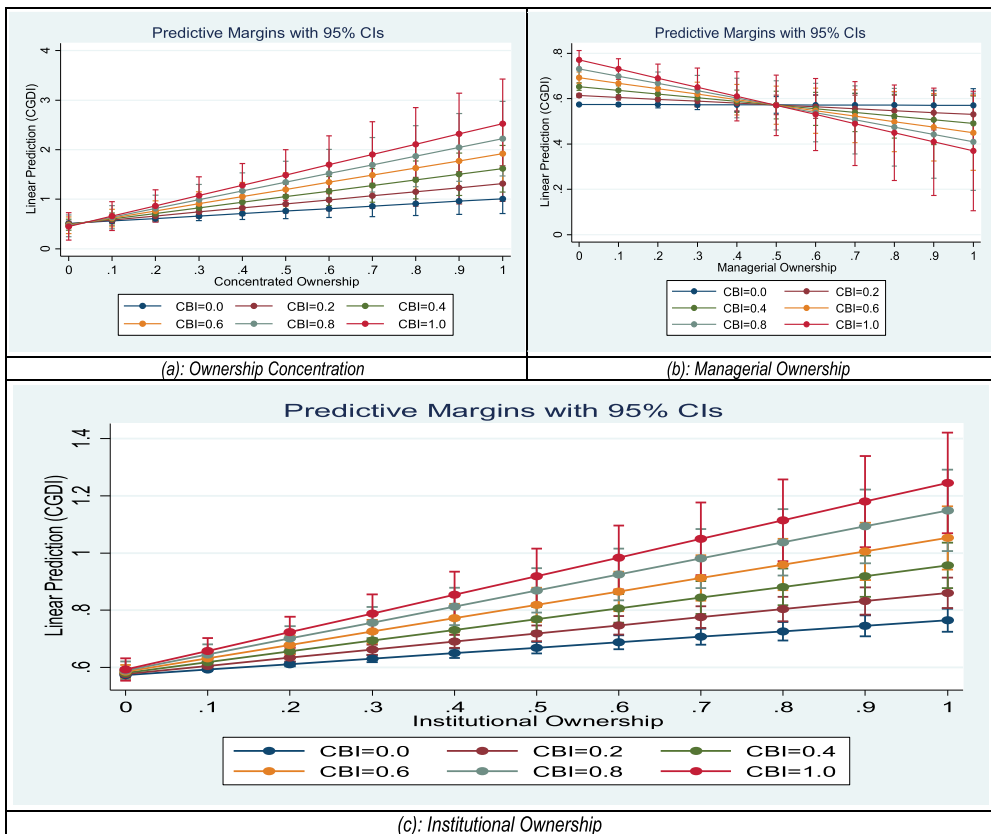


Figure 2. The predictive margins plots: Moderation effect of CEO power on the association between ownership structure and CG disclosures. (a): Ownership Concentration; (b): Managerial Ownership; (c): Institutional Ownership.

5.5.2. Predictive marginal effect graphs

To overcome the challenges associated with interpreting interactive analysis, we estimate the predictive marginal effect plots as Burks et al. (2019) suggested. We plot the marginal impact of three ownership structures, i.e. CSO, MSO, and ISO, and the moderating role of CEO power on CGDI. The results are documented in Figure 2. Figures 2(a) and 2(c) show that, as the CEO power increases, the negative effects of concentrated ownership – Figure 2 (a) – and institutional ownership (Figure 2(c)) on the CG disclosure are strengthened, as shown by a sharpened negative slope. The findings provide further evidence that the presence of independent directors influences the effects of concentrated/institutional ownership on CG disclosure. However, Figure 2(b) shows that, as the CEO power increases, the effect of managerial ownership on the CG disclosure gradient decreases and eventually turns negative. Therefore, these results continue to support our baseline results.

6. Conclusion

Using a unique dataset from 2006 to 2021, we examine the effects of ownership structure and the moderating role of CEO power on CG disclosure in East Africa. We find that

concentrated ownership negatively affects CG disclosure, and institutional ownership positively affects CG disclosure. However, managerial ownership has no significant influence on CG disclosure. We also document that the influence of ownership structure (concentrated, institutional, and managerial ownership) on CG disclosure is negatively moderated by CEO power. Further analysis shows that the negative influence of concentrated ownership is more pronounced for non-independent boards. In contrast, the positive influence of institutional ownership is stronger in the presence of an independent board. Another interesting finding is that, whereas the effects of institutional and concentrated ownerships on CG disclosure remain unchanged irrespective of a firm's debt levels, the effect of managerial ownership on CG disclosure is driven by debt financing demand. This suggests that the influence of managerial ownership on CG disclosure is driven by external pressure.

In line with the managerial hegemony theory, our findings provide evidence that, as the number of managerial shareholders increases, the effectiveness of shareholders (predominantly external or non-managerial shareholders) in monitoring and controlling executive management diminishes significantly. This raises theoretical questions about the applicability of managerial shareholding in developing countries with weak institutions and CG systems. This study extends our understanding by demonstrating that CEO power negatively moderates the ownership structure-CG disclosure relationship. The findings also support managerial hegemony theory regarding the relationship between the CEO and non-executive directors.

The study has interesting implications for practitioners and policy makers. First, our results indicate that institutional investors are associated with more voluntary information disclosure compared to other types of firm ownership. The above findings imply that a firm's ownership types should not be treated as homogenous in that the characteristics and preferences of each ownership type differ and tend to influence corporate disclosure policies differently. This suggests that ownership type matters for voluntary disclosure and therefore managers and policy makers should pay more attention to the proportion of institutional investors in the ownership structure as institutional investors tend to have more incentives and resources to engage in effective monitoring compared to other types of firm ownership. Another important implication of this study is that powerful CEOs tend to weaken the monitoring role of shareholders, thereby reducing CG compliance and disclosure practices. Therefore, practising managers and policymakers should pay attention to regulating and balancing the CEO power-board relationship, particularly in an environment where institutions, CG systems, and shareholder protection are weak. The last implication of our findings is that highly indebted firms have higher CG disclosure practices than unleveraged firms. This suggests that CG disclosure practices are likely to be relatively low in an environment where institutions are weak unless managerial shareholders are subjected to external pressure.

Notwithstanding the significant contributions of this study, its limitations should be explicitly acknowledged. First, in constructing both CG disclosure and CEO power indices, our main focus is on East African countries. Thus, the indices may not necessarily be applicable in developed countries, where institutional settings are different. Second, while we have used principal component analysis to ensure a good and relevant selection of items included in our indices, it is pertinent to point out that, to date, there is

no theoretical guide in building these indices. Thus, future research should examine the methodology of calculating and assigning weights to each item in developing the index. Third, we call for a study to be carried out comparing the effect of CEO power on the ownership structure-CG disclosure nexus between developed and emerging economies to increase our understanding of this subject.

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Data availability statement (DAS)

Data for this study is freely available from the corresponding author upon reasonable request.

Disclosure statement

No potential conflict of interest was reported by the author(s).

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